

HOW MICROSOFT REDUCES ITS GLOBAL TAXES

The Wall Street Journal said in its report two weeks ago : "Ireland's citizens may not have heard of Round Island One, but they benefit greatly from its presence. Last year the unit handed the government of this small country of four million citizens more than \$300 million in taxes.

The citizens of other nations where Microsoft sells its products are less fortunate. Round Island One provides a structure for Microsoft to radically reduce its corporate taxes in much of Europe, and similarly shields billions of dollars from U.S. taxation.

Giant U.S. companies whose products are heavily based on their innovations, such as technology and pharmaceutical firms, increasingly are setting up units in Ireland that route intellectual property and its financial fruits to the low-tax haven -- at the expense of the U.S. Treasury."

The Journal wrote: "Much of Round Island's income is licensing fees from copyrighted software code that originates in the U.S. Some of the rights to these lucrative assets end up in Ireland via complex accounting rules on intellectual property that the Treasury is now seeking to overhaul. The Internal Revenue Service said it is also looking closely at how companies account for such transactions.

In a statement, Microsoft said its European units "report and pay significant amounts of taxes" and that Microsoft "is fully compliant with the tax laws of the United States and all other countries."

Through a key holding, dubbed Flat Island Co., Round Island licenses rights to Microsoft software throughout Europe, the Middle East and Africa. Thus, Microsoft routes the license sales through Ireland and Round Island pays a total of just under \$17 million in taxes to about 20 other governments that represent more than 300 million people."

Microsoft's effective global tax rate fell to 26 percent in its last fiscal year from 33 percent the year before. Nearly half of the drop was attributed to "foreign earnings taxed at lower rates," Microsoft said in a Securities and Exchange Commission August filing. Microsoft leaves much of its profit in Ireland, including \$4.1 billion in cash, avoiding U.S. corporate income taxes. But it still can count this profit in its earnings.

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